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CIA-RDP81-00280R000200050003-8

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ANALYSIS OF THE EAST GERMAN BUDGET FOR 1956

[Comment: This report presents an analysis of the East German budget for 1956, as published on 25 December 1955 in Wochenbericht des Deutschen Instituts fuer Wirtschaftsforschung, the weekly report of the German Institute for Economic Research, a West German organization devoted to the conduct of economic research, located in Berlin.]

The East German budget encompasses all aspects of life and economy, to a much larger degree than do the budgets of Western countries. It comprises all profits and losses of the nationalized industries, which constitute about 85 percent of all industry, and the 100-percent nationalized (state-owned) banking insurance, and wholesale trading enterprises. It also covers the whole field of social welfare, including the social insurance budget. In addition, it contains all funds, such as consumption tax receipts and price subsidies, which appear within the framework of government price regulation.

Furthermore, as a result of the prevailing form of state financing, the bulk of all investments, namely those of the nationalized sector, are contained in the budget. Even the so-called "capital market investments" of the private sector are listed at least in the appendix of the budget.

Unfortunately, the law on the Budget Plan for 1956 furnishes only the usual over-all figures for the individual budgets of the national administrations of the Bezirke and for social insurance. The voluminous explanations and interpretations of the budget, published in various sources, furnish little additional information.

However, by combining knowledge of financial procedures of previous years, the few absolute figures given, and the ample supply of percentage figures, it is possible to describe the most important aspects of the national financial picture.

Public Revenues

In the budget for 1956, the first significant point is that its volume is about one billion DM lower than last year even though the Economic Plan for 1956 provides for an 8-percent production increase within the industrial sector, the main area of the state-owned (nationalized) economy. A certain expansion of public finance would appear more likely, though not necessarily one proportionate to the industrial expansion.

Commentators in East Germany place great emphasis on this phenomenon. They stress the fact that the increasing profitability of the people-owned economy relieves the treasury of the obligation of paying high subsidies to deficit enterprises and claim that this, in turn, despite a reduced budget, permits increasing expenditures for investment purposes.

The profitability of a number of enterprises actually may have improved as a natural development of overcoming initial difficulties. However, a correct interpretation of the statistics themselves points to many other factors equally responsible for the reduction in the size of the budget.

The grand total of budget receipts dropped to 37.1 billion DM from the 1955 plan figure of 38.2 billion DM, which was almost exactly matched by actual revenue. The net figures show a reduction from 35.6 billion DM to 34.9 billion DM, after elimination of all duplicate entries through mutual clearing operations covering the national (state) budget, the Bezirk budgets, and the social insurance system.

Of the total receipts, the sum of 15.6 billion DM, as compared with last year's 13.6 billion DM, is to be obtained from the people-owned sector of the economy. This amount consists of the net operating surpluses (Betriebsüberschüsse) of enterprises, as well as of all profit taxes (Ertragssteuern), the turnover taxes (Umsatzsteuern), and the bulk of the excise taxes (excises). In previous years, excise taxes were levied at the retail trade level; they were not counted as part of the receipts from the people-owned economy but were shown as a separate item under the heading "other taxes."

The following table shows revenues according to the Budget Plan for 1956, as compared with planned and actual revenues in 1955 (in million DM):

	<u>1955</u>		<u>1956 Plan</u>
	<u>Plan</u>	<u>Actual</u>	
People-owned economy			
Net surpluses (Überschüsse) of enterprises, and corporation, turnover, and business taxes	9,017	13,566	15,622
Excise taxes	4,638		
Taxes and other receipts, including	16,015	16,231	13,557
Taxes from private sector of economy	2,521	2,446	2,736
Cooperatives taxes	399	--	--
Wage taxes	1,320	1,219	1,279
Community taxes	834	--	--
Other receipts	2,240	--	--
Subtotal	29,670	29,797	29,179
Social insurance	5,956	5,900	5,706
Total receipts	35,626	35,697	34,885
Duplicate entries			
Clearing accounts: Republic/Bezirke	1,485	--	1,601
Clearing accounts: National budget/ Social insurance	1,056	1,158	650
Grand total (Budget Law)	38,167	--	37,136

In 1954, for the first time, part of the budget taxes (Haushaltsaufschläge) were levied at the production-level and therefore shown as receipts from the people-owned economy; the amount was about 2.5 billion DM. In 1955, this sum was increased to 4.6 billion DM because of the introduction of production and service taxes. Unfortunately, it is not stated to what extent these production and service taxes are included in the receipts from the people-owned economy in 1956.



However, in view of the relatively slight increase of 5 percent in retail trade turnover provided for in the Economic Plan, and in view of the practically unchanged price level of retail prices, an increase in excise taxes of well over 500 million DM is probable; the latest figure on total return from these taxes amounted to 12.4 billion DM. On the other hand, there is likely to be a reduction of at least one billion DM in the actual yield from excise taxes because, as of 1 January 1956, no more production taxes will be levied for export orders; the policy has been that the taxes must be paid first, but are afterward reimbursed through the price-equalization provisions for export trade. Therefore, the net result will probably be a reduction of about 500 million DM in the return from excise taxes.

Additional receipts expected from the private sector of the economy and from wage taxes, however, are to amount to about 350 million DM; hence, total tax revenue should remain about the same as last year.

No amount is given for "other receipts"; these include administrative returns as well as receipts from public institutions, etc. Last year this item must have contained an amount of about 700 million DM in credits; hence, it is likely to be lower this year than last. In 1955, the comparable amount of receipts from the people-owned economy, therefore, must have been a few hundred DM lower than in the preceding year.

There is, however, still another aspect of the picture to be considered in this connection: In 1955, according to the rules concerning the financing of people-owned enterprises, each plant has been given the opportunity, within certain limits, to finance its own investments from its own working capital. The Budget Plan for 1956 sets aside 819 million DM for this purpose, out of which about 800 million DM is earmarked for investments, as compared with last year's 530 million DM. Thus, though the payments to the state-budget will be correspondingly reduced, the same surpluses as last year seem to be expected from the enterprises, in spite of the scheduled increase in production.

The figure for receipts from social insurance is 200 million DM lower. Here again, the information is unfortunately so inexact that it is impossible to ascertain which part of these receipts is based on membership contributions and which part on state subsidies, such as annuities for war victims, etc., which are paid out through the social insurance system by the state. The plan for 1955 lists the clearing accounts to be settled between social insurance and the state at 1,060,000,000 DM. No specific amount is mentioned for 1956, but calculations based on other figures reveal a sum of 650 million DM; this amount also contains payments by the social insurance system to the state.

Since an expansion of the labor force during the current year can hardly be expected, an increase in membership contributions to social insurance is improbable. It is certain, however, that receipts will be reduced at least by about 200 million DM: this figure would have represented contributions from artisan and private peasants, whose insurance with the social insurance system will be terminated as of 1 January 1956; they will have to take out their insurance with the German Insurance Agency (Deutsche Versicherungsanstalt). This regulation was introduced because the contributions paid by these groups to the social insurance system allegedly did not cover the required payments and led to a deficit of 280 million DM.

Public Expenditures

The structure of the main expenditure groups has changed little. Including the clearing account of 650 million DM with the social insurance system -- a figure which is the same both in the revenue and in the expenditure section of the budget -- total expenditures for 1956 amount to 35.5 billion DM. This amount is more than 1.2 billion DM below the comparable amount of last year, which included a clearing account of 1,158,000,000 DM with the social insurance system (Plan for 1955: 1,056,000,000 DM).

According to the Budget Law the people-owned economy receives contributions amounting to 5,240,000,000 DM from the state budget. These funds are to be spent for investments, deficit financing and price supports, subsidies of working capital, and other expenditures of the people-owned economy. Of the 4,540,000,000 DM in state-financed investments, an amount of 3,890,000,000 DM goes to the people-owned economy and about 600 million DM is allocated for residential construction. Investments financed by the enterprises themselves, amounting to 398 million DM, have to be added to the investments of the people-owned economy; however, they come out of the earnings of people-owned enterprises, and payments made by these enterprises to the state budget will be reduced correspondingly.

The investments planned for people-owned residential construction in 1955 seem to have been approximately realized. Residential construction in 1956 has been transferred to a large extent to cooperatives for residential construction which were financed under the Long-Term Credit Plan. The Long-Term Credit Plan, for which the Budget Law of 1956 stipulates an amount of 1,770,000,000 DM (plan for 1955: 1,370,000,000 DM), provides not only for the financing of cooperative and private residential construction, but also for the financing of investments for rationalization of people-owned enterprises (1955 actual: 100 million DM; 1956 plan: 250 million DM), for the bulk of the investment in the LPGs (agricultural producer cooperatives) (1955 actual: 290 million DM; 1956 plan: 347 million DM), and for investments in private agriculture (1955 actual: 64 million DM; 1956 plan: 105 million DM).

Further demands, in an unknown amount, have been made on the Credit Plan in 1955 by private industry; this was done on the basis of a privilege, granted in 1953, which entitled this sector of the economy to use 25 percent of its earnings, tax-free, for investments. This privilege will be almost completely abolished in early 1956; the current Long-Term Credit Plan, therefore, probably provides only an insignificant amount for private industry, in view of the prevailing trend in economic policy which tends to prevent all growth in the private sector of the economy.

In addition to the above-mentioned sources of investment financing, amortization payments made by the enterprises to the German Investment Bank are also drawn upon; these funds are used mainly for replacements and general repairs. The size of these amortization funds must not be overestimated since the rates of amortization, which are fixed by the state, are relatively low.

According to issue No 147 of Neues Deutschland of 1955, total investments for 1955 have been estimated at 5.1 billion DM. In 1956, the state's share in investments is to increase 39.7 percent, from 4.9 billion DM to 6.8 billion DM.

Deducting the state-financed investments of 3,890,000,000 DM from the 5,240,000,000 DM provided for the people-owned economy leaves 1,350,000,000 DM for the deficit and price supports for the people-owned economy and other expenses, including 256 million DM in subsidies of working capital.

This amount is not specified in the budget for 1955; the figure is much lower in the plan for 1956 than in that for 1955, supposedly because of the considerable reduction in the number of deficit [unprofitable] enterprises.

The bulk of the expenditures for agriculture and forestry goes into subsidies to private peasants in the form of increased prices for agricultural products they sell to the government collection agencies in excess of their compulsory delivery quotas. In addition, there are MTS expenses (1955 plan, 764 million DM, actual: 799 million DM; 1956 plan: 839 million DM). The subsidies planned for LPGs in 1956 are also contained in this item; they amount to 96 million DM in 1956, which is 46 million DM more than last year. Of this figure, 25 million DM is provided for supplementing the fixed, movable, and animal inventory of those underdeveloped farms which were transformed into LPGs from so-called local agricultural enterprises.

The following table shows expenditures according to the Budget Plan for 1956 as compared with planned and actual expenditures in 1955 (in million DM):

	1955		1956 Plan
	Plan	Actual	
Investments, people-owned economy	2,250	3,135	4,540
Investments, people-owned residential construction, and others	784		
Subsidies, people-owned economy	2,042	--	1,350
Agriculture and forestry, incl expenditures for MIS	3,724	3,246	3,765
Price equalization, foreign trade	3,823	--	--
Materials reserve	129	--	3,090
Education, science, culture, promotion of youth, sports	3,641	--	5,598
Social welfare and health	1,327	10,842	--
Social insurance	5,888	--	5,713
State administration	2,690	2,600**	2,700**
Occupation costs*	1,843	--	1,780
Debt redemption and interest payments	450	--	126**
Other expenditures	7,006	--	6,200
Total	35,597	35,615	34,862
Duplicate entries	2,541	--	2,251
Surplus	29	82	23
Grand Total	38,167	--	37,136

* According to the plan, always 5 percent of total annual receipts.

** Estimated

To what extent price equalizations for foreign trade have actually been used in 1955 remains unknown; the planned amount was 3.8 billion DM. As explained before, it is certain that this item has been considerably reduced in the plan for 1956; at most, it was fixed at 3 billion DM. The amount of 3,090 million DM in the preceding table of expenditures contains, in all likelihood, an increased amount for the materials reserve of the state.

Next to the expenditures for the development of the economy, a large part of the total is spent on planned expenditures in the fields of labor, social welfare, health, education, art and science, the promotion of youth activities and sports (1954, 30.8 percent; 1955, 30.5 percent; 1956 plan, 32.5 percent). For the budget account in 1955, only an over-all figure of 10.8 billion DM is given, which, incidentally, is only 14 million DM below the planned amount. Over-all expenditures for 1956 have been increased by 500 million DM.



A specially earmarked reserve of 68 million DM planned by the social insurance system for 1955 was not established; this is probably due to the increased drain on social insurance because of a further increase in sickness. Up to 1954, receipts for social insurance did not cover expenditures; now, an earmarked reserve amounting to 180 million DM is planned for 1956; East Berlin has to contribute just under 7 million DM to this fund to be paid out of its own budget to the Berlin Insurance Agency.

In addition to the expenditures for social insurance, which total 5,713,000,000 DM, the budget is debited, for the first time, with a subsidy of 108 million DM for the German Insurance Agency; this was necessitated by the previously mentioned change in the form of insurance for private crafts and trades enterprises.

Expenditures for state administration have been almost constant for several years; in 1955 they are said to have been somewhat lower than in the preceding year. With regard to occupation costs, it was officially announced in August 1953 that, starting in 1954, they would amount to 5 percent of the gross receipts of the national budget. Hence, the occupation costs of 1,843 million DM in 1955 must have been above the amount of the preceding year, while the costs are supposed to be lower in 1956 because of the reduction in the size of the budget, according to plan. It is doubtful whether this schematic lowering of the planned amount will actually lead to smaller withdrawals; it should be noted that the amount paid out as occupation costs has never been mentioned in the last few years, while it certainly would have been published if it had been below the planned figure.

Interests on prewar credit claims (Uralt Guthaben), which were planned at 227 million DM for 1955, will not come due again before 1958; the amount for redemption and interest payments provided for in the 1956 plan will therefore be considerably below last year's plan figure.

The budget items which have so far been discussed add up to an amount which is below the figure for total expenditures (not including duplicate entries) by 7,006,000,000 DM for the 1955 plan and by 6.2 billion DM for the 1956 plan. These residual amounts cannot be further itemized.

For 1956, it was officially announced that 975 million DM will be needed "for expenditures connected with the organization and support of the National People's Army." Nothing has been published on the extent of the costs of arming and equipping the army. These probably consist in the main of additional exports in payment for Soviet deliveries. They are doubtlessly covered by the above residual amounts, as are the costs of the Soviet-German Wismut Enterprise. There should also be a place in these residual, unspecified amounts for the type of investments which are needed for military purposes; because East Germany certainly has no interest in offering a detailed presentation of such items.

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